

Mr. Brian L. Oldaker, Director of Reimbursement
Life Care Centers of America
3570 Keith Street, NW
Post Office Box 3480
Cleveland, Tennessee 37320

Re: AC# 3-LHH-J8 – Life Care Center of Hilton Head

Dear Mr. Oldaker:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

**LIFE CARE CENTER OF HILTON HEAD
HILTON HEAD, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-LHH-J8**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 1999	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1999 THROUGH SEPTEMBER 30, 2000	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1998	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 13, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Life Care Center of Hilton Head, for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Life Care Center of Hilton Head, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Life Care Center of Hilton Head dated as of June 1, 1997 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 13, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

LIFE CARE CENTER OF HILTON HEAD

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-LHH-J8

	10/01/99- <u>09/30/00</u>
Interim reimbursement rate (1)	\$96.97
Adjusted reimbursement rate	<u>95.95</u>
Decrease in reimbursement rate	\$ <u><u>1.02</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

LIFE CARE CENTER OF HILTON HEAD
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-LHH-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$45.05	\$44.29	
Dietary		10.75	10.24	
Laundry/Housekeeping/Maint.		<u>8.82</u>	<u>8.89</u>	
Subtotal	\$ <u>-</u>	64.62	63.42	\$63.42
Administration & Med. Rec.	\$ <u>-</u>	<u>14.01</u>	<u>11.39</u>	<u>11.39</u>
Subtotal		78.63	<u>\$74.81</u>	74.81
<u>Costs Not Subject to Standards:</u>				
Utilities		2.90		2.90
Special Services		1.65		1.65
Medical Supplies & Oxygen		4.52		4.52
Taxes and Insurance		1.14		1.14
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$88.84</u>		85.02
Inflation Factor (3.00%)				2.55
Cost of Capital				7.06
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>.57</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$95.95</u>

LIFE CARE CENTER OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-LHH-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,403,423	\$ -	\$ -	\$1,403,423
Dietary	334,976	-	-	334,976
Laundry	53,355	-	-	53,355
Housekeeping	136,289	-	-	136,289
Maintenance	85,030	-	-	85,030
Administration & Medical Records	418,472	18,141 (5)	-	436,613
Utilities	90,257	-	-	90,257
Special Services	51,263	-	-	51,263
Medical Supplies & Oxygen	164,589	-	5,579 (4) 18,141 (5)	140,869
Taxes & Insurance	35,493	-	-	35,493
Legal Fees	-	-	-	-
Cost of Capital	227,439	9,726 (3)	5,942 (1) 7,765 (2) 3,469 (6)	219,989
Subtotal	3,000,586	27,867	40,896	2,987,557

LIFE CARE CENTER OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-LHH-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	47,778	-	-	47,778
Non-Allowable	756,994	5,942 (1)	9,726 (3)	764,444
		7,765 (2)		
	<u> </u>	<u>3,469 (6)</u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$3,805,358</u>	<u>\$45,043</u>	<u>\$50,622</u>	<u>\$3,799,779</u>
Total Patient Days	<u>31,156</u>	<u>-</u>	<u>-</u>	<u>31,156</u>
TOTAL BEDS	<u>88</u>			

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-LHH-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 53,350	
	Other Equity	155,311	
	Nonallowable	5,942	
	Fixed Assets		\$208,661
	Cost of Capital		5,942
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Accumulated Amortization	1,249	
	Other Equity	66,868	
	Nonallowable	7,765	
	Loan Cost		68,117
	Cost of Capital		7,765
	To adjust loan cost and related amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Cost of Capital	9,726	
	Nonallowable		9,726
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Retained Earnings	5,579	
	Medical Supplies		5,579
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
5	Medical Records	18,141	
	Medical Supplies		18,141
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-LHH-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Cost of Capital	3,469	3,469
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$327,400</u>	<u>\$327,400</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

LIFE CARE CENTER OF HILTON HEAD
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-LHH-J8

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>	
Deemed Asset Value (Per Bed)	35,130	35,130	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,545,720	1,545,720	
Improvements Since 1981	118,067	63,207	
Accumulated Depreciation at 9/30/98	<u>(605,250)</u>	<u>(423,240)</u>	
Deemed Depreciated Value	1,058,537	1,185,687	
Market Rate of Return	<u>.063</u>	<u>.063</u>	
Total Annual Return	66,688	74,698	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	66,688	74,698	
Depreciation Expense	24,877	53,167	
Amortization Expense	635	-	
Capital Related Income Offsets	(38)	(38)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	92,162	127,827	\$219,989
Total Patient Days (Minimum 97% Occupancy)	<u>15,578</u>	<u>15,578</u>	<u>31,156</u>
Cost of Capital Per Diem	\$ <u>5.92</u>	\$ <u>8.21</u>	\$ <u>7.06</u>

LIFE CARE CENTER OF HILTON HEAD
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-LHH-J8

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 8.11	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$12.10</u>	<u>\$8.21</u>
Reimbursable Cost of Capital Per Diem		\$7.06
Cost of Capital Per Diem		<u>7.06</u>
Cost of Capital Per Diem Limitation		<u>\$ -</u>